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MEMORANDUM

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AZ CORP COMMISSION
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Arizona Corporation Commission

DOCKETED

APR 19 2005

FROM: Utilities Division

DATE: April 19, 2005

DOCKETED BY

RJ

RE: IN THE MATTER OF THE APPLICATION OF PAYSON WATER COMPANY, INC.,
AN ARIZONA CORPORATION, FOR APPROVAL OF A WATER AUGMENTATION
SURCHARGE TARIFF (DOCKET NO. W-03514A-05-0188)

Introduction

On March 15, 2005, Payson Water Company, Inc. ("Company") filed a Water Augmentation Surcharge Tariff. This proposed tariff would allow the Company to make monthly adjustments to its rates and charges for water service to recover costs incurred for water augmentation costs, including bulk water purchases and transportation, which could occur if a curtailment plan tariff is approved by the Commission.

Waiving the Timeclock

On March 17, 2005, the Company docketed a letter agreeing to waive the applicable timeclock.

Company's Water Systems

The Company is located in the Payson area in Gila County and consists of nine independent water systems; Mead's Ranch, East Verde Estates, Flowing Springs, Geronimo, Mesa del Caballo, Star Valley/Quail Valley, Whispering Pines, Star Valley and Deer Creek Systems. These systems serve a total of approximately 4,100 customers.

Proposed Water Augmentation Surcharge Tariff

The Company's proposed water augmentation surcharge tariff was developed based on the tariff approved for Pine Water Company, Inc. ("Pine Water") in its most recent rate case order Decision No. 65914 (May 16, 2003). The surcharge will be calculated by:

"Dividing the total water hauling costs incurred in a given month by the amount of water sold that month. The resulting rate per 1,000 gallons will then be multiplied by the gallons used in that month for each customer to arrive at the surcharge per 1,000

gallons. The resulting water augmentation surcharge would then be charged in the next month's billing cycle as a separate line item on the customer's bill."

According to the Company, the imposition of this surcharge will have no impact on the rate of return realized by the Company.

Conclusions

Staff has reviewed the proposed surcharge tariff and finds that this request can only be considered in the context of a rate case filing. The requested surcharge is not revenue neutral and would increase or decrease the Company's revenues or expenses.

Staff's Recommendation

Staff recommends denial of the Company's Water Augmentation Surcharge Tariff.

A handwritten signature in black ink, appearing to read 'EGJ', followed by a long horizontal flourish.

Ernest G. Johnson

Director

Utilities Division

EGJ:MSJ:rdp/TS

ORIGINATOR: Marlin Scott, Jr.

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IN THE MATTER OF THE APPLICATION
OF PAYSON WATER COMPANY, INC.,
AN ARIZONA CORPORATION, FOR
APPROVAL OF A WATER
AUGMENTATION SURCHARGE TARIFF

DECISION NO. _____

BY THE COMMISSION:

1. Payson Water Company, Inc. ("Company") is certificated to provide water as a public service corporation in the State of Arizona.
2. On March 15, 2005, the Company filed a water augmentation surcharge tariff.
3. The Company's proposed tariff would allow the Company to make monthly adjustments to its rates and charges for water service to recover costs incurred for water augmentation costs, including bulk water purchases and transportation, which could occur if a curtailment plan tariff is approved by the Commission.
4. On March 17, 2005, the Company docketed a letter agreeing to waive the applicable timeclock.
5. The Company is located in the Payson area in Gila County and consists of nine independent water systems; Mead's Ranch, East Verde Estates, Flowing Springs, Geronimo, Mesa

1 del Caballo, Star Valley/Quail Valley, Whispering Pines, Star Valley and Deer Creek Systems.
2 These systems serve a total of approximately 4,100 customers.

3 6. The Company's proposed water augmentation surcharge tariff was developed based
4 on the tariff approved for Pine Water Company, Inc. ("Pine Water") in its most recent rate case
5 order Decision No. 65914 (May 16, 2003). The surcharge will be calculated by:

6 "Dividing the total water hauling costs incurred in a given month by the amount of
7 water sold that month. The resulting rate per 1,000 gallons will then be multiplied
8 by the gallons used in that month for each customer to arrive at the surcharge per
9 1,000 gallons. The resulting water augmentation surcharge would then be charged
in the next month's billing cycle as a separate line item on the customer's bill."

10 7. According to the Company, the imposition of this surcharge will have no impact on
11 the rate of return realized by the Company.

12 8. Staff has reviewed the proposed surcharge tariff and finds that this request can only
13 be considered in the context of a rate case filing. The requested surcharge is not revenue neutral
14 and would increase or decrease the Company's revenues or expenses.

15 9. Staff recommends denial of the Company's Water Augmentation Surcharge Tariff.

16 CONCLUSIONS OF LAW

17 1. The Company is an Arizona public service corporation within the meaning of
18 Article XV, Section 2, of the Arizona Constitution.

19 2. The Commission has jurisdiction over the Company and of the subject matter in
20 this Application.

21 3. The Commission, having reviewed the request for approval of the tariff and Staff's
22 Memorandum, dated April 19, 2005, and concludes that it is not in the public interest to approve
23 the Water Augmentation Surcharge Tariff.

24 4. Under Article XV, Section 14 of the Arizona Constitution, the proposed tariff
25 cannot be approved without a fair value finding.

26 ...

27 ...

28 ...

ORDER

IT IS THEREFORE ORDERED that the proposed Water Augmentation Surcharge Tariff for Payson Water Company, Inc. is denied.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2005.

BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DISSENT: _____

EGJ:MSJ:rdp/TS

Decision No. _____

1 SERVICE LIST FOR: Payson Water Company, Inc.

2 DOCKET NO. W-03514A-05-0188

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